

CORRECTED FISCAL MEMORANDUM
HB 470 – SB 568

September 25, 2007

SUMMARY OF AMENDMENT (010119): Deletes the language of the original bill. Creates a one-time three-day sales tax holiday from March 21, 2008 through March 23, 2008. Exempts from state and local sales tax clothing with a sales price not exceeding \$100 per item, school supplies with a sales price not exceeding \$100 per item, and computers with a sales price not exceeding \$1,500 per item. Holds local governments harmless from the loss of local option sales tax revenue. Reduces the state sales tax rate on food and food ingredients from 6.0% to 5.5%, effective January 1, 2008.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenues - \$23,644,000 / General Fund
 \$53,029,000 / Education Fund
 \$3,741,000 / Earmarked to Local Govt.
 \$299,000 / Department of Revenue
 \$748,000 / Sinking Fund

Decrease Local Govt. Revenues - \$3,741,000

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

On June 12, 2007, we issued a fiscal memorandum for this bill as amended with the following estimated fiscal impact:

Decrease State Revenues – Net Impact
 \$30,403,000 – FY07-08
 \$38,860,000 – FY08-09 and thereafter

Increase State Expenditures - \$4,031,000 – FY07-08

Decrease Local Govt. Revenues - Net Impact
 \$935,000 – FY07-08
 \$1,870,000 – FY08-09 and thereafter

Based on new information received from the Department of Revenue, the fiscal impact of this bill as amended is estimated as follows:

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(CORRECTED)

Decrease State Revenues – Net Impact

\$29,899,000 – FY07-08

\$38,860,000 – FY08-09 and thereafter

Increase State Expenditures - \$3,527,000 – FY07-08

Decrease Local Govt. Revenues - Net Impact

\$1,439,000 – FY07-08

\$1,870,000 – FY08-09 and thereafter

Assumptions applied to amendment:

- Based on data relative to the sales tax holiday that occurred in August 2006, taxable sales during a one-time three-day sales tax holiday in March 2008 are estimated to be \$156,750,000.
- The decrease to state sales tax revenue in FY07-08 resulting from the one-time three-day sales tax holiday is estimated to be \$10,973,000 ($\$156,750,000 \times 7.0\%$ current state rate = \$10,972,500).
- Local governments are apportioned a 4.5925% share of all state sales tax revenue under current statute.
- Local governments will not be held harmless from the loss of state-shared sales tax revenue associated with the one-time sales tax holiday.
- The one-time decrease to local government revenues in FY07-08 associated with the loss of state-shared sales tax revenue is estimated to be \$504,000 ($\$10,973,000 \times 4.5925\%$ share = \$503,935).
- The net decrease of state revenues resulting from the one-time sales tax holiday is estimated to be \$10,469,000 per year (\$10,973,000 gross revenue decrease - \$504,000 that would be apportioned to local governments = \$10,469,000 net state decrease).
- The average local option sales tax rate is estimated to be 2.25%.
- Local governments will be held harmless from the loss of local option sales tax revenue resulting from the one-time three-day sales tax holiday.
- The net increase of state expenditures in FY07-08 for holding local governments harmless from the loss of local option sales tax revenue associated with a one-time three-day sales tax holiday during March 2008 is estimated to be \$3,527,000 ($\$156,750,000 \times 2.25\% = \$3,526,875$).
- According to the Department of Revenue, taxable sales of food and food ingredients in Tennessee for FY05-06 were approximately \$7,753,600,000.
- Based on historical collection patterns, taxable sales of food and food ingredients are estimated to grow by approximately 2.5% per year.

- Taxable sales for FY07-08 are estimated to be approximately \$8,146,126,000.
- The recurring decrease in state sales tax revenue resulting from a 0.5% rate reduction on food sales is estimated to be \$40,730,000 ($\$8,146,126,000 \times 0.5\% = \$40,730,630$) each full fiscal year.
- The state will forgo additional sales tax revenue in subsequent fiscal years due to the natural growth of taxable food sales.
- The estimated \$40,730,000 in state sales tax revenue would have been apportioned as follows: \$11,822,000 to the General Fund, \$26,514,000 to education, \$1,870,000 to local governments, \$150,000 to the Department of Revenue (DOR), and \$374,000 to the Sinking Fund.
- Local governments are apportioned a 4.5925% share of state sales tax revenue under current statute.
- Local governments will not be held harmless from the loss of state-shared sales tax revenue associated with the sales tax rate reduction on food.
- The recurring decrease of local government revenues resulting from the reduction of the state sales tax rate on food is estimated to be \$1,870,000 per year ($\$40,730,000 \times 4.5925\% \text{ share} = \$1,870,525$).
- The net decrease to state revenues resulting from the reduction of the state sales tax rate on food is estimated to be \$38,860,000 per year ($\$40,730,000 \text{ gross revenue decrease} - \$1,870,000 \text{ that would be apportioned to local governments} = \$38,860,000 \text{ net state decrease}$).
- The first-year impact (FY07-08) is estimated at 50% of the first full-year impact (FY08-09) due to the proposed effective date.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc